Lighthouse Beacon
Christmas 2022

Christmas Greetings!

As the weather outside gets chilly so do the current headlines. Goods and services are costing more. Central banks are raising interest rates to control inflation. (Prime Rate has increased from 2.45% to 6.45% this year.) There is the potential for recession and supply chain challenges continue. We have also witnessed the loss of life and destruction of property with Russia's invasion of Ukraine. Other geo-political tensions have increased.

But we can take comfort that God is present.

> "…for I know the plans I have for you," declares the Lord, "plans to prosper you and not to harm you, plans to give you hope and a future…"
>
> Jeremiah 29:11

Christmas may be a difficult time. The loss of a parent, spouse, friend, or a family pet can make celebrating difficult. May you be given the comfort that only Jesus can provide.

In this issue, there is an important out of office alert. We also highlight the new tax advantaged First Home Savings Account (FHSA…a new acronym😊) which is anticipated to be available April 1, 2023.

With the earth's population reaching 8 billion in 2022, it's amazing that God created us all unique. It's a blessing to help clients achieve life planning goals integrated with Biblical principles such as purchasing a first home and retiring comfortably.

Have a wonderful Christmas. We wish you God's continued blessings in 2023.

Jim Hummel, CFP® CKA®
Ella Mae Cupido, Licensed Assistant
Carol Slomp, Office Manager

Out of Office Alert: January 9 – 20

After a 3-year COVID break, Jim will again be mixing concrete and helping to build latrines, pilas (water storage) and floors and developing relationships in Honduras in January with a group sponsored by West End Christian Reformed Church, Edmonton and supported by World Renew and Diaconia Nacionel de Honduras.

During Jim's absence, Ella Mae Cupido, Licensed Assistant, can assist with any urgent transactions.

Bloom Where You Are Planted

This section will return in future editions.

Planner's Corner: First Home Savings Account

The Canadian government has introduced First Home Savings Account (FHSA), a new tax-advantaged account that can help Canadian residents who are at least 18 years old to purchase their first home or those who have not owned a home in the preceding four years. Tax-deductible contributions of up to $8,000 per year to a lifetime maximum of $40,000 can be made to a FHSA. Funds, including investment income, can be withdrawn tax free to purchase a principal residence in Canada.

An Alberta resident who makes $60,000 and contributes $8,000 to a FHSA will receive a tax refund

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of $2,440 (marginal tax rate of 30.5%). With contributions of $8,000 over 5 years ($40,000), the tax refund would be $9,150.

Unused contribution room carries forward to a maximum of $8,000. Carry-forward amounts start to accumulate after an individual opens an FHSA. The maximum amount that can be contributed in a single year is $16,000. Like Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP), Canada Revenue Agency will access a 1% tax monthly on over-contributions to an FHSA.

An individual is not required to claim a deduction for the tax year in which a contribution is made. Like RRSP contributions, these amounts can be carried forward indefinitely and deducted in a later year.

FHSA can be invested like a TFSA or RRSP ranging from deposit accounts to Guaranteed Investment Certificates to bonds and stocks.

Funds from a FHSA must be used within fifteen years of opening the account or turning age 71. If the FHSA participant does not buy a home or use the FHSA to buy a home, funds can be transferred to a Registered Retirement Savings Plan (RRSP) tax-free with no effect on RRSP contribution limits or withdrawn as taxable income.

Individuals are also allowed to transfer funds from an RRSP to an FHSA on a tax-free basis, subject to FHSA annual and lifetime contribution limits. Funds transferred would not be deductible and would also not reinstate an individual's RRSP contribution room.

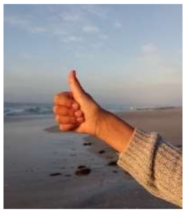
Individuals will be permitted to designate their spouse as their successor account holder maintaining the account's tax-exempt status. Inheriting an FHSA in this way would not impact the surviving spouse's FHSA contribution limits. If the surviving spouse is not eligible to open an FHSA, funds can be transferred to an RRSP or RRIF of the surviving spouse or withdrawn on a taxable basis. If a beneficiary of an FHSA is not the deceased account holder's spouse, the funds would be withdrawn and paid to the beneficiary. Amounts paid to the beneficiary would be included in the income of the beneficiary for tax purposes.

It's anticipated that withdrawals from FHSA can be combined with RRSP Homebuyer's Plan (HBP). The RRSP HBP allows up to $35,000 per participant to be

withdrawn from an RRSP tax free. The key difference is that the FHSA does not have to be paid back whereas the RRSP HBP withdrawal must be paid back over a 15-year period starting in the second year after the withdrawal or that unpaid portion would need to be included as income for tax purposes.

Like other tax advantaged products such as RESP and RDSP, the basics are straightforward. Gifting contributions, when to claim contributions, shifting money from RRSP to FHSA, etc. would benefit from the advice of an experience financial advisor.

<u>The bottom line.</u> For those who are in the saving stage of their homebuying journey, there is no downside to the FHSA as a savings vehicle.



Jim Hummel, CFP® CKA®

Sources:

https://www.canada.ca/en/department-finance/news/2022/08/design-of-the-tax-free-first-home-savings-account.html

https://www.parl.ca/legisinfo/en/bill/44-1/c-32